

Message Text

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PAGE 01 STATE 077031

ORIGIN EB-08

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FM SECSTATE WASHDC
TO AMEMBASSY LIMA

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E.O. 11652: N/A

TAGS: EAIR, US, PE

SUBJECT: CIVAIR - DISCUSSION ON USER CHARGES & FUEL
PRICES

1. SUBJECT TO EMBASSY COMMENTS, FOLLOWING IS CIVAIR TEAM'S
REPORT ON DISCUSSIONS HELD IN LIMA MARCH 25 REGARDING USER
CHARGES AND FUEL PRICES:

A. IN FRIENDLY MEETING WITH JOSE M. CORSO, MANAGER OF
PETROPERU, CORSO MADE FOLLOWING COMMENTS ON POINTS RAISED
BY US TEAM:

1) IT IS TRUE THAT JET FUEL FROM THE CARIBBEAN COULD BE
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PAGE 02 STATE 077031

LANDED AT LIMA FOR ABOUT 41 CENTS A U.S. GALLON, BUT WHEN
OTHER COSTS, INCLUDING A 10-15 PER CENT PROFIT, ARE TAKEN
INTO ACCOUNT, THE 55 CENT PRICE CHARGED BRANIFF IS
REASONABLE. WHEN ASKED FOR A BREAKDOWN OF THOSE OTHER
COSTS, CORSO REPLIED HE WOULD NEED AUTHORITY FROM ABOVE TO
REVEAL THEM. HE SUBSEQUENTLY AGREED TO SEEK SUCH
AUTHORITY AND, IF OBTAINED, PASS INFO TO EMBASSY. (THESE

COSTS WOULD INCLUDE AN IMPORT DUTY, ACCORDING TO CORSO, BUT THE 3 GENERAL SALES TAX AND 1.2 SOLE PER GALLON TAX ARE OVER AND ABOVE THE SELLING PRICE.)

2) A BONDED FUEL SYSTEM SIMILAR TO THAT PREVIOUSLY IN USE IN THE U.S. WOULD BE CONTRARY TO PERUVIAN LAW. (U.S. TEAM HAD ARGUED THAT SUCH A SYSTEM WOULD INSULATE THE FUEL FROM THE PERUVIAN ECONOMY, AND THUS AVOID ANY ADVERSE IMPACT THAT IMPORTS MIGHT OTHERWISE HAVE.)

3) (PROTECT CORSO.) HE WOULD LIKE TO CHARGE AEROPERU THE SAME AS OTHER AIRLINES FOR FUEL USED ON INTERNATIONAL FLIGHTS, RATHER THAN THE 29 CENTS CURRENTLY CHARGED, BUT HIGHER LEVELS OF THE PERUVIAN GOVERNMENT WILL NOT AGREE, CORSO IMPLIED THAT ALTHOUGH THE MINISTRY OF ENERGY HAS IMMEDIATE RESPONSIBILITY FOR THIS AREA THE CURRENT POLICY ORIGINATES IN THE COUNCIL OF MINISTERS OR HIGHER. (U.S. TEAM HAD MADE POINTS IN 2.B. BELOW.)

4) ANY DECISION ON A POSSIBLE RECIPROCAL EXEMPTION FROM FUEL TAXES WOULD HAVE TO COME AT A LEVEL ABOVE PETROPERU.

B. CORSO APPEARS WELL INFORMED AND WELL DISPOSED, BUT NOT IN A POSITION OF SUFFICIENT AUTHORITY TO BE OF MUCH HELP ON THESE ISSUES.

C. GENERAL MANAGER MADGE OF CORPAC WAS EVEN MORE FRIENDLY. HE SEEMS TO BE ON EXCELLENT TERMS WITH BOTH BRANIFF AND THE LOCAL FAA REP, AND EVEN CALLED IN THE LIMITED OFFICIAL USE

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PAGE 03 STATE 077031

BRANIFF STATION MANAGER TO HELP WITH THE INTERPRETING. UNLIKE CORSO, HE SEEMED TO HAVE AUTHORITY OVER QUESTIONS OF INTEREST OF US TEAM. FOLLOWING ARE PRINCIPAL POINTS OF THE DISCUSSION:

1) FOLLOWING US TEAM'S INTRODUCTORY REMARKS ON OUR CONCERN OVER RAPIDLY INCREASING AIRLINE COSTS MADGE ASSURED THEM THAT HE HAS DONE EVERYTHING POSSIBLE TO AVOID USER CHARGE INCREASES. HE POINTED TO HIS EFFORTS TO INCREASE OTHER SOURCES OF INCOME, E.G., FROM WAREHOUSES, PARKING, AND THE DUTYFREE SHOPS, AND THE FACT THAT FEES DID NOT INCREASE BETWEEN 1967 AND SEPTEMBER, 1976. THE 25 PER CENT INCREASE AT THAT TIME, HE SAID, WAS THE DIRECT RESULT OF THE IMPACT OF HIGHER OIL PRICES ON THE PERUVIAN ECONOMY.

2) MADGE CONTENTED THAT SINCE ONLY FIVE PER CENT OF THE INTERNATIONAL FLIGHTS OVERFLYING PERU DO NOT LAND THE FACT THAT THEY PAY AS MUCH AS FLIGHTS WHICH DO LAND IS

RELATIVELY UNIMPORTANT, BUT HE CONCEDED THAT THE PRESENT FEE STRUCTURE DATES BACK TO THE BEGINNING OF CORPAC, AND NEITHER IT NOR THE FEE LEVEL IS BASED ON PROPER COST ALLOCATION. A PREVIOUS EFFORT TO CHANGE THE STRUCTURE,

BASED ON ONE OF A NUMBER OF IATA SUGGESTIONS, WAS REJECTED BY HIGHER AUTHORITY; BUT MADGE HAS HIRED TWO ECONOMISTS THAT HE WANTS TO DO A FULL COST STUDY. HE ASKED IF THE U.S. WOULD BE ABLE TO PROVIDE SOME TRAINING IN COST ALLOCATION FOR THEM.

3) MADGE CONCEDED THAT ALTHOUGH CORPAC AS A WHOLE IS SELF SUPPORTING, ONLY THREE OR FOUR AIRPORTS ARE SELF SUPPORTING, BUT HE STRONGLY RESISTED THE SUGGESTION THAT THIS MEANS THAT THE INTERNATIONAL AIRLINES ARE SUBSIDIZING THE NONSELF-SUPPORTING AIRPORTS.

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PAGE 04 STATE 077031

COMMENT: US TEAM STILL HAS SERIOUS RESERVATIONS ON THIS POINT, BUT FEELS THAT USG EFFORT IN THIS CONNECTION IS BEST DIRECTED AT TRYING TO SPEED UP COST STUDY. WITHOUT IT, NO FIRM CONCLUSIONS ARE POSSIBLE.

4) MADGE FLATLY DENIED THAT SUPPLEMENTALS ARE CHARGED 10 PER CENT MORE THAN SCHEDULED AIRLINES FOR CARGO HANDLING.

5) MADGE CONCEDED THAT GROUND HANDLING MONOPOLIES IN GENERAL HAVE A TENDENCY TO CHARGE HIGH PRICES AND PROVIDE POOR SERVICE, BUT HE INSISTED THAT CORPAC WAS DETERMINED TO PROVIDE DECENT SERVICE AT A REASONABLE PRICE. WHILE THERE WAS NO PROSPECT OF ALLOWING SELFHANDLING, CORPAC NOT ONLY RELIED ON BRANIFF FOR TECHNICAL ADVICE, BUT REGULARLY CONSULTED WITH ALL THE AIRLINES, PARTICULARLY IN CONNECTION WITH JUSTIFICATION OF PROPOSED CHARGE INCREASES. BRANIFF REP PRESENT CONFIRMED THAT THIS IS TRUE.

D. TEAM MENTIONED TO MADGE THE DOMESTIC FARE ADVANTAGE GIVEN PASSENGERS WHO TRAVEL ON AEROPERU INTERNATIONALLY, A TWIST HE WAS UNACQUAINTED WITH. THE DGTA, RATHER THAN CORPAC, HAS AUTHORITY OVER FARES, BUT, AFTER CONSULTATION WITH EMBASSY AND BRANIFF, IT WAS DECIDED THAT IT WOULD BE INAPPROPRIATE FOR TEAM TO APPROACH DGTA ON THIS SINGLE ISSUE. HOWEVER, ISSUE SHOULD BE RAISED WITH PERUVIAN AUTHORITIES AT EARLIEST APPROPRIATE OPPORTUNITY.

2. ACTION REQUESTED: IN ADDITION TO APPROACH ON DOMESTIC FARES (ABOVE),PLEASE PURSUE FOLLOWING POINTS WITH

MINISTRY OF ENERGY AND REPORT RESULTS.

A. MAY CORSO PROVIDE COST FIGURES JUSTIFYING CURRENT
PRICE OF JET FUEL TO FOREIGN AIRLINES?

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PAGE 05 STATE 077031

B. WHY ARE U.S. AND OTHER FOREIGN AIRLINES, CHARGED MORE
THAN AEROPERU FOR FUEL USED IN INTERNATIONAL FLIGHTS? IN
USG VIEW, THIS IS CONTRARY TO THE "FAIR AND EQUAL
OPPORTUNITY" CLAUSE OF THE BILATERAL. (IF PERUVIANS ARGUE
THAT THEY CAN SUBSIDIZE THEIR NATIONAL AIRLINE IF THEY
WANT TO, REPLY THAT THE USG DOES NOT OBJECT IF GOVERNMENTS
COVER THEIR AIRLINES' LOSSES, BUT IT DOES OBJECT TO
SPECIAL ARRANGEMENTS WHICH MAKE IT APPEAR THAT THOSE
LOSSES NEVER OCCURRED.)

NOTE THAT IN THE U.S. AEROPERU HAS ACCESS TO DOMESTIC FUEL
WHICH IS SIGNIFICANTLY CHEAPER THAN IMPORTED OR BONDED
FUEL. FYI. DOMESTIC ALLOCATION FOR AEROPERU COULD BE
LIFTED BECAUSE OF EXISTING DISCRIMINATION IN PERU. END
FYI.

C. WOULD PERU BE AGREEABLE TO RECIPROCAL EXEMPTION FROM
FUEL TAXES ON INTERNATIONAL AVIATION? US BELIEVES THAT
INTERNATIONAL AVIATION SHOULD NOT BE BURDENED WITH
CHARGES NOT DIRECTLY RELATED TO IT. (DO NOT PUSH THIS
ISSUE; WE ARE PRIMARILY INTERESTED IN KNOWING GOP VIEW.
INCIDENTALLY, IN THE U.S. ALL COMMERCIAL AVIATION IS
EXEMPT FROM FUEL TAX, EXCEPT FOR A ONE AND ONE HALF CENT
CHARGE PER GALLON ON IMPORTED FUEL.)

3. WHILE NO SOURCE OF FUNDS IS PRESENTLY APPARENT,
DEPARTMENT WILL INVESTIGATE POSSIBILITY OF PROVIDING COST
ALLOCATION TRAINING.
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